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IPSAS for European Union Member States as Starting Points for EPSAS – Analysis of the Discourses among Countries and Stakeholders

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Abstract

Purpose – The European Commission is pursuing an initiative to establish European Public Sector Accounting Standards (EPSAS) as a common mandatory set of rules for financial reporting of all member states of the European Union (EU). As a basis for developing EPSAS, the International Public Sector Accounting Standards (IPSAS) are being used. The purpose of this paper is to structure and analyze the discussion around EPSAS, with particular emphasis on the arguments that were brought forward by governments and other stakeholders of various EU countries regarding the suitability of IPSAS.

Design/methodology/approach – Drawing on several schools of thought in new institutional theory, how the prevailing institutional contexts in countries influence the debates is explored. Empirically, this research investigates the responses to a consultation on the suitability of IPSAS for EU member states and takes a closer look, via document analysis, at France and Germany as two critical cases.

Findings – It is found that, first, the majority of arguments from respondents are framed in a *rational choice* way. Second, skeptics of IPSAS tend to make arguments rather from positions closer to *historical* and/or *sociological* institutionalism.

Research limitations/implications – The paper illustrates that while technical matters around EPSAS seem solvable, political, historical, and cultural differences go deeper, and need to be addressed by change agents. Regarding limitations of the research, first, the analysis concentrates on financial reporting and does not deal with the implications for more reliable and comparable national accounts in the context of the European System of Accounts (ESA 2010). Second, it is focused on debates in the context of the EPSAS proposal, and there is a need for an evaluation after the changes have gone *live*.

Originality/value – The study looks at a text genre that has so far received less attention in public sector accounting research: responses to consultations. The paper contributes to the literature by showing how institutional contexts matter in settings characterized by contestation of reform contents.

Keywords – Accounting Reforms, IPSAS, EPSAS, EU, New Institutional Theory, Content Analysis, Contestation of Reform Contents

Paper type – Academic research paper

1. Introduction

For some years, the European Commission (EC), and more particularly its Directorate-General for Statistics (Eurostat), has been pushing forward an initiative to establish European Public Sector Accounting Standards (EPSAS) (Aggestam-Pontoppidan and Brusca, 2016; European Parliament, 2015; Jorge *et al.*, 2019). The major aim of this initiative is to improve transparency, reliability, and comparability of financial accounting and reporting of the governments of the European Union (EU) member states, not least as a lesson from the financial crisis of 2007/08 (Jorge *et al.*, 2016). Common rules are regarded as key prerequisites for sustainable public finances of member states (European Commission, 2013).

Although the majority of EU governments have moved to accrual accounting in the last few years – even if not always on the central government level – there is still a mix of diverging accounting practices across Europe, which prevents coordinated and transparent fiscal policy-making at EU level (Brusca *et al.*, 2015; EY, 2012). This is the result of different historic accounting traditions, and also of different regulations in the member states. Therefore, potential opportunities and caveats of EPSAS are assessed quite unequally, and proposed contents and strategies for change are discussed in controversial ways at times (European Commission, 2012).

At the center of the ongoing debate about a common European public sector accounting framework, and of our analysis, are the International Public Sector Accounting Standards (IPSAS): At first, the EC intended to use IPSAS as a template for establishing a set of mandatory accounting standards for financial reporting in all EU member states. Although “IPSAS cannot easily be implemented in EU member states as it stands currently, [... they] represent an indisputable reference for potential EU harmonized public sector accounts” (European Commission, 2013, p. 8). Research on the suitability of IPSAS as a basis for EPSAS has echoed this (Aggestam-Pontoppidan and Andernack, 2016; Brusca *et al.*, 2018; Manes Rossi *et al.*, 2016).

This paper intends to structure and analyze the ongoing discourse on E/IPSAS that is taking place on both the EU and member state levels, covering the articulated opinions and interests of major actors. We do this by looking at responses to a public consultation on the suitability of IPSAS for EPSAS – a text genre that has so far received less attention in public sector accounting research, contrary to studies in private-sector accounting regulation (see e.g. Botzem, 2014; Linsley *et al.*, 2016). Taking a new institutional perspective, we are particularly interested in how different institutional contexts – e.g. different *accounting cultures*, such as the Anglo-Saxon *fair value* focus in contrast to the Germanic *prudence* principle (Hellman, 2008; Nobes and Parker, 2016), and issues of *isomorphism* (e.g. Oulasvirta, 2014) – influence the discussion. We also investigate what roles particular governments and stakeholders (e.g. Ministries of Finance [MoFs], auditors, accountancy firms, or academics) play in the discourse. Our research questions are as follows:

- (1) What major issues have been brought forward by participating actors in the Eurostat consultation on IPSAS?
- (2) How have the prevailing institutional contexts in countries influenced the debates?

The research deals primarily with the conceptual framework and the major accounting standards, but not with the more advanced aspects of EPSAS, such as issues of governance or first-time implementation (see e.g. European Commission, 2014; Jones and Caruana, 2014). Empirically, we take two steps. First, we perform a content analysis of the responses of a consultation held by Eurostat on the suitability of IPSAS. Second, we analyze the reactions of France and Germany, two countries that present critical cases due to the disagreement of their central governments about using IPSAS as the basis for developing EPSAS.

Although the consultation was conducted already in 2012, it is still worth to analyze its results. This is because since then there have not been any other pan-European surveys on the role of IPSAS in the ongoing process of EPSAS development among representatives of governments and other relevant

stakeholders. There is only anecdotal information available about the positions and opinions of governments with regard to the IPSAS/EPSAS issue (Adhikari and Gårseth-Nesbakk, 2016; European Commission, 2018). The results of the consultation therefore provide rich information and insight on the positions and perceptions of major stakeholders in the earlier stage of the still ongoing process of developing common European standards. When analyzing the development of EPSAS, we take recent developments into account (Caruana et al., 2019; Jorge *et al.*, 2019), particularly when outlining the reactions of France and Germany (Brusca *et al.*, 2018; Calmel, 2014; Eulner and Waldbauer, 2018; German SAI, 2017).

From a conceptual point of view, this paper draws on concepts from new institutional theory (Baskerville and Grossi, 2019; Hall and Taylor, 1996; Van Gestel and Teelken, 2006). A growing body of literature acknowledges that the implementation of new accounting tools and instruments is more than merely a technical question (e.g. Pallot, 2006; Miller and Power, 2013), and that the embedding of actors in the institutional context matters. With this, we contend that institutional traditions of actors (and countries) and institutional pressures are key to understanding the E/IPSAS debate. In a nutshell, we find that the majority of arguments from respondents – both endorsing and rejecting E/IPSAS – are framed in a *rational choice* way, but there are also indications that accounting change is influenced by cultural and behavioral patterns (other schools of thought in new institutional theory).

The remainder of the study is structured as follows: Section 2 presents the conceptual orientation through discussing the extant literature on accounting harmonization and the EPSAS project alongside the three schools of thought in new institutional theory. Next, after data and methods are introduced (Section 3), we present the research findings (Section 4) and provide a discussion (Section 5), where we analyze and structure the discussion around EPSAS. The paper concludes with a summary, where implications are outlined (Section 6).

2. Conceptual Background

2.1 Public Sector Accounting Harmonization, EPSAS, and the Underlying IPSAS

Parallel to accounting convergence processes in the private sector (e.g. the dissemination of IFRS: Albu *et al.*, 2014; Nobes, 2013), the harmonization of public sector accounting has increasingly become an issue – and also in Europe, with different degrees of implementation in different countries (Christiaens *et al.*, 2015). Advocates emphasize particularly the advantages of greater comparability and consistency of financial accounting information as a precondition for more effective financial coordination and control across countries, especially in the EU context (European Commission, 2013; Jorge *et al.*, 2016; Jorge *et al.*, 2019). Additionally, harmonized financial statements of governments may enhance transparency – and, with this, creditability – of governments on capital markets (European Commission, 2013; Manes Rossi *et al.*, 2016). On the other side, various governments are concerned about departing from well-established accounting traditions and routines, losing sovereignty, and high implementation costs (Aggestam-Pontoppidan and Brusca, 2016; Brusca *et al.*, 2015; German SAI, 2017). There can be, however, several ways pursued to harmonize government accounting across different EU member states: First, the scope of harmonization can be limited to such data directly needed for compiling the national accounts for statistics (i.e. within the scope of the European Systems of Accounts [ESA] [Caruana *et al.*, 2019]). Second, harmonization can cover the entire financial reporting. Third, it can be expanded to budgeting and budgetary reporting (which in various EU member states is still cash-based [Reichard and Van Helden, 2017]).

The debate on EPSAS emerged as a side effect of the financial crisis of 2007/08. The EC aimed to improve fiscal steering and control across member states and was requested by the European Parliament to examine if harmonized financial reporting of European governments would contribute to the improvement of fiscal steering (Makaronidis, 2017; Oulasvirta and Bailey, 2016). The EPSAS initiative was the result of an intensive debate, initiated by growing doubts (fed not least by discovered manipulations of government accounts, e.g. by Greece) about the reliability and correctness of the

existing ESA concept. Thus, Eurostat started a public consultation in 2012 on the suitability of common accounting standards for governmental accounting of all EU states (EPSAS).

In 2013, Eurostat also began discussing governance issues of EPSAS (European Commission, 2014). Stepwise, Eurostat established several working groups for further development of the EPSAS concept, always by inviting experts from member states (European Parliament, 2015). After quite critical feedback from some member states, such as France and Germany, against mandatory EPSAS, Eurostat changed its strategy and proposed a more voluntary implementation approach (European Commission, 2013): In the first stage (until 2020), the issue of strengthening fiscal transparency in all member states should have priority. In parallel, accrual accounting shall be promoted and an EPSAS framework developed. In the second stage (until 2025), stepwise, EPSAS shall be implemented by some member states, supported by Eurostat. The degree of compulsory introduction has so far been an open decision. More recently, Eurostat has offered financial support to national standard setters, training institutes, and other target groups for activities supporting EPSAS implementation. In parallel, the EPSAS working group at Eurostat is continuously developing various reporting standards and also a conceptual framework (Mann et al., 2019). Additionally, three smaller expert groups (*cells*) were established, dealing with first-time implementation, governance issues, and principles. Increasingly, Eurostat is developing the EPSAS concept in a quite unperturbed and *business-as-usual* manner, supported by the *Big Four* accounting firms, but also by government representatives from various member states. Several *EPSAS Issue Papers* in development indicate that IPSAS mutate from the unique blueprint to one of several sources for composing EPSAS¹.

¹ On the website <https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments> (last access: 28/03/2019), Eurostat has published a range of documents concerning the preparation of the EPSAS framework, for example Issue Papers on *Consolidation of Financial Statements, Loans and Borrowings*, or *Notion of Control* (all in October 2018).

The academic literature dealing with EPSAS is slowly growing (see e.g. the recent Special Issue on EPSAS in Accounting and Europe; Jorge *et al.*, 2019) and to some extent related to the IPSAS debate. While some scholars discuss the general necessity of developing common European accounting standards (e.g. Biondi and Soverchia, 2014; Brusca *et al.*, 2018; Mussari, 2014), others provide recommendations based on prior experiences with IPSAS (e.g. Grossi and Steccolini, 2015; Hepworth, 2017; Jones and Caruana, 2014; Jones and Caruana, 2015). What is more, there are also studies debating the harmonization of financial, statistical, and budgetary reporting (Biondi, 2014; Brusca *et al.*, 2013; Heiling *et al.*, 2013). Yet other contributions deal with the change process toward EPSAS in the EC (e.g. Oulasvirta and Bailey, 2016).

2.2 Schools of Thought in New Institutional Theory

New institutional theory provides a lens through which to analyze how institutional contexts (e.g. regulations, procedures, or, more broadly, prevalent [accounting] traditions or experiences with previous government reforms) influence socioeconomic life (Hall and Taylor, 1996). The question of “how do institutions affect the behavior of individuals?” (in our case, *how do actors respond to the proposal of harmonizing accounting standards through E/IPSAS?*) is key to any form of institutional analysis (ibid., p. 939). Here, Hall and Taylor identify two major ways, namely a *calculus approach* (i.e. human behavior is instrumental and based on strategic calculation) and a *cultural approach* (individuals are bound by their views of the world and actors are embedded in institutions). Three different “new institutional schools” (ibid.) can be identified, which are briefly sketched below (the more recent *discursive institutionalism* [Schmidt, 2008], as a fourth variant, remains disregarded in this paper). In line with Van Gestel and Teelken (2006) and Baskerville and Grossi (2019), we contend that all streams have their merits for our analysis due to their distinct interest regarding central research issues.

First, *historical institutionalism* aims to trace sequences of social, economic, and political behavior and change across time and is mostly interested in power relationships between actors and issues of path dependency (Hall and Taylor, 1996). For example, the study by Fülbier and Klein (2015) on the impact of accounting internationalization on German accounting regulations identifies a path-dependent process, which was characterized by changes in some, but not all, regulatory areas. The authors conclude that “[i]nstitutional persistency and the related notion of path-dependent processes cast doubt on the idea that accounting systems will globally converge to a uniform accounting and contracting system” (ibid., p. 364). Another example would be that, in the UK, career paths with a change between public and private sectors have been established for a long time and would be seen as something *normal* and, as a consequence, public sector accounting employees (often with an accounting background) could be expected to be rather familiar with private-sector styles of accounting. On the contrary, in continental European countries there are less *revolving doors* between sectors, and civil servants (still often with a legal background) may be much more skeptical toward private sector-based accounting systems, such as accrual accounting (Knassmüller and Meyer, 2013). For the topic of accounting harmonization, we would expect, for example, arguments being brought forward by proponents referring to countries (with probably similar public accounting traditions) that successfully implemented IPSAS earlier. In terms of negative statements, we would anticipate arguments such as that IPSAS represent values that are not compatible with the accounting traditions in certain countries (Fülbier and Klein, 2015; Van Gestel and Teelken, 2006).

Second, *rational choice institutionalism* follows a *calculus approach*. It uses the argument from economics that a particular organizational form develops because it reduces overall transaction costs (Williamson, 1981). Translated to the issue of accounting change, this means that a specific accounting system would be chosen because it is perceived as more efficient than other systems. In line with Moll and Hoque (2018) and Van Gestel and Teelken (2006), in the debate around accounting harmonization, we would look for arguments that stress, for example, issues such as easier access to

credit markets, better strategic decision-making, enhanced transparency, and accountability to come, along with harmonized standards. On the contrary, cost/benefit concerns, such as high reform costs or arguments that politicians would not understand complex accounting information, would be expected.

Finally, *sociological institutionalism* “is based on the assumption that organizations are influenced by pressure from their institutional environment and adopt the structures and/or procedures that are considered legitimate and are regarded as the appropriate choice” (Tegesson, 2015, p. 15). This stream challenges the existence of formal means-ends relationships in society and points toward the importance of *culture* (Hall and Taylor, 1996). The actions of public sector accountants are structured by, for instance, the norms of professional associations or the prevailing accounting culture within a country. Institutions therefore structure what is considered *appropriate* behavior in a certain context (Scott, 2014), e.g. if it would be appropriate to use a certain type of accounting information for decision-making. For understanding accounting change, the well-known distinction by DiMaggio and Powell (1983) between the variants of *mimetic*, *normative*, and *coercive isomorphism* may be useful. For example, while the mimetic mechanism has been linked to emulating instruments and practices that are labeled to be modern and promising success (see e.g. Christensen and Parker’s [2010] account of the introduction of accrual accounting in the New South Wales government in Australia), the normative mechanism has been regarded as an outcome of professionalization, e.g. through the influence of consultants or university accounting education programs (Adhikari and Gårseth-Nesbakk, 2016). The coercive mechanism, finally, is concerned with state intervention and pressure from resource providers like donor organizations (for instance, Hepworth [2017] describes such pressures that emerging economies are facing regarding implementing IPSAS). In the extant accounting research, the study by Oulasvirta (2014) analyzes, combining the three types of isomorphism, why Finland did not implement IPSAS. The author indicates that neither mimetic (most members of the accounting standards board were not enthusiastic about the IPSAS), normative (the neighboring

Nordic countries had also not implemented IPSAS), nor coercive (no change prescribed by national or EU legislation) forces were present.

3. Methods, Data, and Analysis

The paper intends to structure the discourse related to E/IPSAS and, in particular, to study the arguments brought forward by organizational actors involved in or having a stake in public sector accounting reforms. In order to get a *hold* on institutions, we draw on content analysis, as it has been argued that institutions become manifested through the use of language in e.g. responses to consultations or issued position papers (Cornelissen *et al.*, 2015). The analysis of documents has been stated to be a *typical tool* for this purpose (Schneiberg and Clemens, 2006). More specifically, Green Jr. and Li (2011) contend that by using such an approach it can be explained how institutions both enable and constrain agency of actors.

In 2012, Eurostat issued a public consultation on the suitability of the IPSAS for the member states of the EU. In our first exploration, we analyzed a subset (41 of 68) of all responses to Eurostat concerning the suitability of IPSAS.² We excluded, for instance, responses from stakeholders from subnational administrative levels of a country. Also, responses in another language than English or German and those not sufficiently addressing the raised questions of Eurostat were not considered. In a second analytical step, we shed more light on the debate about the suitability of IPSAS as common European public sector accounting standards in two particular countries: Germany, as a country reluctant to use accrual accounting and therefore also the EPSAS (“German circumspection”), and France, as a country that has implemented accrual accounting on all state levels, but is opposed to EPSAS (“French revolution”: Portal *et al.*, 2012, p. 357). The two countries were selected using a *purposeful sampling* approach (Patton, 2015), i.e. we argue that Germany and France represent critical cases where the

² The responses are no longer accessible online, but are available from the authors upon request.

particular institutional contexts become visible particularly through their contestation of reform contents (see also Eulner and Waldbauer, 2018).

For assessing the selected responses to Eurostat, we developed an analytical scheme, based on prior research, with cues for analyzing the responses.³ Each response was coded for issues such as overall opinion, degree of comprehensiveness and commitment to IPSAS, view of the reform process, and type of argumentation. In the course of evaluation, we noted – next to information on the country and the responding institution – if the IPSAS were seen as suitable, partly suitable, or not suitable for guidelines for future EPSAS. Mirroring our interest in how institutional contexts in a country might shape the positioning of respondents, we identified cues for each of the institutionalist streams. For the *historical institutionalism*, we were looking, for instance, for hints relating IPSAS to existing public sector accounting reform experiences or the compatibility of the suggested standards with the prevalent accounting tradition. For the *rational choice* school, we searched for arguments emphasizing an enhanced transparency or higher information quality leading to superior decisions. For the *sociological stream*, we were looking for narratives identifying normative, coercive, and mimetic forces that might be pushing or slowing change, for example, references to professional bodies, best-practice cases, or international organizations.

In the second analytical stage we conducted a comprehensive document analysis in the two selected country cases. Apart from academic articles, we particularly drew on published position papers after the IPSAS consultation and on *gray* material, such as presentations and documents from stakeholders that did not participate in the consultation of Eurostat.

4. Results

4.1 IPSAS Consultation by Eurostat

³ The full analytical scheme is available from the authors upon request.

In their *Summary of Responses*, Eurostat presents a condensed assessment of all received responses (European Commission, 2012; see also European Commission, 2013, and the evaluation provided by Aggestam-Pontoppidan and Brusca, 2016). Table 1 provides information about the respondents and their general assessment of IPSAS suitability. As can be seen, only about one third of the *official government financial authorities* of EU member states have submitted answers to the questionnaire (9 of 28). This does not provide a clear and full picture of responses, especially because larger countries like Italy or Spain (the latter being rather advanced regarding IPSAS implementation) are not represented at all.

= = = Insert Table 1 about here = = =

Overall Positions of Respondents Concerning IPSAS Suitability: More obviously than in the general Eurostat assessment, a clear majority of respondents show a positive position toward IPSAS as common EU-wide accounting standards (58% saying either *yes* with full support or with a few concerns [+ or +o in Table 1]). The opinion of another 30% is *partly suitable*, emphasizing that IPSAS are generally recommendable as common standards but still have some weaknesses (either concerning their maturity and completeness or the governance issue). Only a minority of respondents (12%) argue that they are not at all convinced by IPSAS as future common EU standards. The critical respondents are:

- French central government and the French public sector standard setter (Responses [R]#22/R#24)⁴
- Federal MoF of Germany (R#37)
- Central MoF of the Netherlands (R#41)
- Central MoF of Poland (R#53).

Concentrating on those public authorities that usually have their say on financial management reforms (i.e. MoFs/treasuries or similar organizations), the picture is less positive: three authorities with a positive opinion (Cyprus [R#4], Malta [R#38], and Romania [R#39]), two authorities with a *partly*

⁴ We follow Eurostat in the numbering of responses.

position (Czech Republic [R#33] and Latvia [R#6]), and, as mentioned, four authorities with a negative stance (see above). However, this picture is quite incomplete, as two thirds of member governments have not responded.

Other public sector organizations are somewhat more positive (auditing and statistics offices or social security funds, e.g. R#2 and R#64). Not surprisingly, respondents from the group of standard setters, accounting associations, and consultancy/accountancy firms are much more positive about IPSAS (e.g. R#47/R#61). With the exception of the quasi-governmental French standard setter (R#22), all respondents are fully or partly positive about this set of standards for Europe. Finally, the IMF (R#51, as the only international organization) as well as two of the three analyzed responses from academics are not fully enthusiastic about IPSAS and vote for *partly suitable* (R#27/R#66). Only one academic submits a clear *yes* as a response (R#3).

Major Arguments of Respondents in their Statements to the Eurostat Questions: As noted above, Eurostat summarized a variety of reasons and arguments mentioned by the original group of respondents (European Commission, 2012). Generally, these arguments can also be found in our more specified sample.

While question 1 focused on the motivation of the respondent to submit an answer, questions 2–4 centered around the main reasons for (non-)suitability and main (dis-)advantages of IPSAS. In terms of supportive arguments for IPSAS and their introduction in the member states, a large number of respondents with a positive view on IPSAS emphasize that financial reporting of the EU countries will become more transparent, comparable, reliable, legitimate, and robust (e.g. R#5/R#38/R#43). They also expect an increasing quality and completeness of reporting data, strengthened accountability relations, and an increased controllability of governments with regard to financial terms. Some respondents also expect the convergence of financial information across EU states and a positive

impact with regard to financial markets and the rating of governments. More particularly, an increased comparability and reliability of macroeconomic data for fiscal steering of economies in the EU is expected.

Several respondents raised critical arguments against IPSAS. According to their view, the IPSAS are:

- not yet fully developed and partly not mature (R#22)
- too much shaped by private-sector standards and practices (e.g. IFRS) and do not sufficiently respect public sector particularities (R#37/R#53)
- not precise as they offer too many options and interpretation opportunities (R#22)
- not clearly linked to the ESA and the related issue of national accounts (R#22)
- partly highly abstract and complex (particularly for small public entities) (R#41)
- very expensive with regard to their implementation (R#27)
- from their governance structure not acceptable for the public sector (R#10).⁵

From a more fundamental point of rejection, two public authorities are quite radically against the introduction of common accounting standards into the family of EU member states: The MoFs of Germany (R#37) and of the Netherlands (R#41) express their opinion that the compulsory introduction of common standards in the member states is not legal and also not legitimate, as it is against the subsidiarity principle. These two governments are the only ones strictly against the move of public financial management from cash to accruals.⁶ Most of the other critical respondents, for example from France (R#22/R#24), emphasize that they see clear advantages of accrual accounting but express doubts against IPSAS as major EPSAS guidelines.

Questions 5–7 addressed the impact on the Excessive Deficit Procedure (EDP) of the EU and the timetable of a possible implementation. The (not too many) opinions of respondents on the

⁵ As mentioned earlier, we do not deal with governance issues in this paper. However, it should be mentioned that Eurostat has started a quite detailed process of discussing and developing appropriate governance mechanisms for the further development of common reporting standards (see European Commission, 2014). Respondents primarily criticize the role of the IPSAS Board (IPSASB) as a private organization where governments cannot take sufficient influence.

⁶ In the meantime, some signals of change can be observed in the Netherlands: The president of the Dutch Supreme Audit Institution supported such a change in 2018; additionally, there is an ongoing debate in parliament and several ministries about a cautious move towards accruals (Rekenkamer, 2018).

connections between a future IPSAS-driven reporting system and the EDP are quite mixed. While some of them expect a positive effect on the EDP because of the improved accrual-based quality of reporting data deriving from harmonized government accounts (e.g. R#2), other experts are rather skeptical and do not see clear positive impacts of harmonization on national accounts (e.g. R#22/R#36).

The majority of respondents are quite sure that harmonizing public sector accounting across Europe will be a very long-term and complex project. Although several respondents are cautious in quantifying the period, others guess that this will take up to ten years (R#2). Furthermore, most assume that such a complex process of accounting change cannot be forced in a radical process but will be rather incremental and staged (e.g. R#39). Only a few representatives think about possibilities of a more radical change (e.g. R#64).

Some respondents are concerned about severe challenges related to the introduction of IPSAS. Quite a lot of them emphasize that IPSAS need to be further developed, particularly with regard to so far untouched public sector specifics such as social benefits, pension provisions, or heritage assets (e.g. R#46). Others point to the fact that IPSAS are disregarding the whole budgeting issue (e.g. R#40/R#41/R#44). Yet others expect a profound change of the accounting culture and also a complicated change of legislations in several countries (e.g. R#33/R#59).

Those respondents who are partly skeptical about IPSAS emphasize among other points that a complete and compulsory introduction of IPSAS is not necessary (e.g. R#14). They argue that, indeed, a stricter harmonization of the entry data for the preparation of national accounts (ESA, 2010) is highly desirable (R#16/R#39). This, however, does not at all mean to also change the underlying financial reporting systems of all member states at all government levels into one fully harmonized accounting system. Another stream of arguments proposes establishing own and specific *EU IPSAS* or even specific EU-wide accounting standards only modestly based on IPSAS (e.g. R#22). Other critical effects often

mentioned are, for instance, high costs of implementation (training and IT systems: e.g. R#27/R#44/R#60), lacking capabilities and skills of existing staff, and resistance of senior bureaucrats and of politicians (e.g. R#16/R#41/R#66).

4.2 The EPSAS Debate in Germany and France

In the following, we will shed more light on the narratives brought forward by Germany – as a country reluctant to introduce accrual accounting on the federal level – and France – as a country that has implemented accrual accounting on all state levels, but is opposed to IPSAS.

The EPSAS Debate in Germany: Germany is probably the EU member state with the most vehement resistance against the introduction of accrual accounting in general and of EPSAS in particular (Eulner and Waldbauer, 2018; German SAI, 2017; German MoF, 2016). While the local government sector has predominantly moved to accrual accounting, 13 of the 16 states (*Länder*) and the federal government still apply cash accounting and follow traditional cameralist financial management regulations (for more details, see Müller-Marqués Berger and Heiling, 2015; Portal *et al.*, 2012). By and large, the opinions of representatives of the various interest groups mirror their position in the ongoing process of reforming German public sector financial management: politicians and bureaucrats are mostly skeptical and critical, while representatives of accountancy firms are quite positive (see the survey in Wüstemann *et al.*, 2016). Apart from the fundamental resistance against accrual accounting at federal level and in most of the *Länder* governments, critical observers point to differences and even tensions between the accounting principles following IPSAS (e.g. the fair value principle) and the traditional German accounting principles based on commercial law (Handelsgesetzbuch [HGB]). In the German accounting tradition, the prudence principle, which is reflected in the *lowest value principle* (*Niederstwertprinzip*) of asset measurement, has a strong relevance. Therefore, even auditors and accountants that support accounting change in general are critical to some IPSAS-related standards

and are expecting inappropriate valuation of assets and liabilities; this may result in an overly positive picture of the financial status of a public entity.

Both chambers of the *federal parliament* (Bundestag and Bundesrat) have clearly voted against the EPSAS project; also, the federal cabinet was against EPSAS. In its response to Eurostat the federal MoF points particularly to the inappropriateness and incompleteness of IPSAS, but also to the nonexistent need of moving to accruals and of introducing common standards (R#37).⁷ In comparison, the *Federal Court of Auditors* (Germany's Supreme Audit Institution – SAI) is more balanced in its judgment (German SAI, 2017): Advantages of accrual accounting are partly and cautiously acknowledged, but the EPSAS project itself is clearly refused. Arguments brought forward are expected high costs of transformation⁸ and the inappropriateness of IPSAS.

The *academic debate* about EPSAS is dominated by quite practice-related authors, often being chartered accountants (e.g. Eulner and Waldbauer, 2018; see also R#25). In general, the debate is critical of EPSAS, but in favor of accrual accounting. The most often expressed arguments deal with the *fair presentation* principle of IFRS/IPSAS, which is considered as not appropriate for the public sector (Budäus *et al.*, 2014; Gerhards, 2014; Weyland and Nowak, 2016). Others emphasize the high costs of the change process and argue that full harmonization across Europe is only necessary for the compilation of financial data for the national accounts (Lüder, 2014).

The EPSAS Debate in France: The French position toward EPSAS is a bit more nuanced, in comparison, and can be summarized as *accruals yes – but EPSAS based on IPSAS rather no*. The implementation of accrual accounting dates back to 2001, when the *loi organique des lois de finances* (LOLF) was passed. Within the scope of the LOLF, accrual accounting was implemented in all public entities in 2006 (Portal

⁷ Interestingly, the Secretary of State responsible for the budget in the MoF articulated a more positive view on EPSAS in June 2018, which may indicate a change of mind, at least in the MoF (Nitsche, 2018).

⁸ They are estimated up to 2 bio. € for Germany (PwC, 2014).

et al., 2012; Portal, 2015). In 2008, a dedicated Public Sector Accounting Standards Council (*Conseil de Normalization des Comptes Publics* [CNOCP]) was established, which takes an active part in the discussion around accounting harmonization in the EU (CNOCP, 2014a; CNOCP, 2014c; R#22). In contributing to the discussion of which IPSAS could be implemented in the EU with minor or no adaptation and which standards needed to be adapted or amended, CNOCP produced their own assessment with a different opinion (CNOCP, 2014b).

Carmel⁹ (2014, p. 221) points out that “it would be wrong to assume the supremacy of IPSASs” and that they should not be taken as a starting point for developing EPSAS. She further stresses that EPSAS should apply only to financial reporting, but not to budgeting (*ibid.*). In their response to the Eurostat consultation, the French authorities wish “to stress the advantages, opportunities, and benefits of having an accrual accounting system based on accounting standards that are harmonized at European level” (R#24, p. 6), but also highlight that IPSAS are just one possible framework. In summary, the IPSAS are not seen as suitable for implementation in the member states (*ibid.*). The French public authorities are particularly concerned with the following issues:

- Only a small number of IPSAS (4 out of 31) deal with specific issues of the public sector, with the others being *only* transpositions of IFRS. There may be the danger that IPSAS-based standards meet less of the information needs of primary users of public accounts, but rather those of investors (R#22/R#24/R#42).
- IPSAS do not address the accounting treatment of transfers and social benefits, “which represent half of public expenditures in France” (R#42: 2).
- IPSAS do not address the issue of tax collection (R#42).
- Various standards are not finalized, but are still works in progress and may be subject to further change (R#22/R#24/R#42).
- IPSAS are quite complex and would be a challenge to implement, especially in smaller public sector entities, which are of particular relevance in France with its more than 36,000 (mostly small) municipalities (R#22/R#24/R#42; see also Carmel, 2014).
- The IPSASB is criticized in terms of its governance, as it is composed by IFAC in a non-public procedure (R#24: 8, see also R#32/R#42) which causes legitimacy concerns. The European Commission “gives the power of public accounts standardization to a private authority on which it has no influence or control” (R#42: 4). Instead, the EU should set the standards itself as it wants to be respected by the member states (R#22).
- The IPSAS would represent rules for the presentation of public accounts. This, however, is not enough to ensure rigorous and reliable bookkeeping. Therefore, additional bookkeeping

⁹ General Secretary of the CNOCP

rules and accounting classifications would be required in order to be able to trace transactions back and to reach an adequate level of consistency (R#22/R#24/R#42).

The critical position of the French government against IPSAS is continuing, although representatives of the government participate in the further development of IPSAS (CNOCP, 2018). The resistance of French authorities against EPSAS is to some extent striking, as according to a study by PricewaterhouseCoopers (PwC) the French accounting standards are, at 89%, comparable with IPSAS (PwC, 2014). A similar position is taken by Portal who elaborates that “applying EPSAS in France, with certain adaptations, should not be a major problem” (2015, p. 91).

5. Discussion of Results

We started this scholarly investigation with the questions of (1) What major issues have been brought forward by participating actors in the Eurostat consultation on IPSAS?, and (2) How have the prevailing institutional contexts in countries influenced the debates? Overall, we found that the majority of arguments from respondents were taking a rational choice view. Not surprisingly, respondents from the groups of standard setters, accounting associations, and accounting/management consultancy firms followed predominantly a *rational choice* logic of argumentation. Government representatives, and more generally IPSAS skeptics, tended to argue more from positions that can be interpreted as closer to *historical* and/or *sociological* institutionalism.

When analyzing the responses in more detail, we found that supporters of IPSAS mostly emphasized quite *rational* features of IPSAS introduction, e.g.:

- transparency (e.g. R#2/R#3/R#5)
- comparability among countries (e.g. R#2/R#5/R#28)
- accountability (e.g. R#27/R#28/R#43)
- completeness of data (e.g. R#2/R#3/R#5)
- convergence of varying accounting systems (e.g. R#3/R#5/R#35)
- higher reliability of data (e.g. R#25/R#28/R#39).

Similarly, the line of argumentation of critical voices, when statements were made on rational grounds, included the following issues:

- IPSAS are still incomplete and partly immature (e.g. R#22/R#37/R#42)
- some standards are rather complex (e.g. R#22/R#41/R#53)
- the whole reform would be quite costly (e.g. R#6/R#7/R#53)
- IPSAS are not sufficiently linked to the realm of government statistics (the ESA [e.g. R#16/R#41/R#42] and the EDP [e.g. R#36]).

With this, we see an assessment of benefits of the proposed changes against their potential costs, and the material interests of actors becoming evident, as suggested by extant research (Hall and Taylor, 1996; Van Gestel and Teelken, 2006).

Taking the lens of the *historical* institutional school, we discovered some arguments around shifts of power (Van Gestel and Teelken, 2006). Here, concerns were raised when legislative power tends to shift from the national to the supranational level or even to the IPSASB (e.g. R#24). What is more, some MoFs/treasuries stressed the particularities of the public sector and IPSAS being too close to the private sector (R#37/R#40/R#53). Other respondents from the public sector mentioned different legal and accounting traditions within Europe (e.g. R#33), and doubted that establishing a common framework of standards that ensures comparability would be realistic (R#41; see also Hellman, 2008; Nobes and Parker, 2016).

Additionally, lack of experts in (accrual) accounting and particularly in asset valuation was mentioned in countries with no accrual accounting tradition; a too strong dependence on external consultants was, for example, feared by the Treasury of Cyprus (R#4) and the Dutch MoF (R#41). In contrast, other discussants thought that IPSAS are sufficiently focused on government particularities, as – different from IFRS – they deal with special aspects of the public sector (e.g. R#5/R#54). IPSAS can serve as a vehicle to overcome differences between the sectors.

Regarding the *sociological institutionalism*, and its focus on identity issues (Van Gestel and Teelken, 2006), we discovered arguments toward mimetic and normative isomorphism, while coercive forces played no role. In general, a few respondents stressed specific cultural elements of the public sector and pointed toward challenges like a missing *accrual culture* in the governments of some countries (predominant *cash thinking*, e.g. R#10/R#14/R#66). This argument was often connected to references to different accounting traditions in the sectors (*historical institutionalism*). Furthermore, it was said that a change is much more than a technical exercise (R#27; see also Tagesson, 2015), but rather a comprehensive change of the entire financial management system (and related management styles).

In addition, some respondents (usually from the accountancy/management consulting realm) emphasized some *mimetic* pressures when referring to the successful move of several EU governments toward IPSAS (or IFRS as their basis, e.g. R#10/R#51). *Normative* pressures were only exceptionally mentioned, e.g. by referring to the existing support from the OECD, the IMF, and the World Bank (e.g. R#5/R#54). Arguments pointing toward *coercive* isomorphism could not be unveiled, probably because the discussion is only at a consultation stage for now. In sum, the discussion around the need for cultural change beyond implementing technical solutions makes the E/IPSAS implementation an *identity project* (Meyer and Hammerschmid, 2006).

Finally, moving on to the analysis of Germany and France, the drawn country picture of Germany showed again that debates on I/IPSAS are largely driven by the established accounting traditions within a country. To some extent, the general accounting mode in Germany is moving from cash to accruals. The change agents – coming from the accountancy/management consulting companies – are familiar with the traditional standards of German commercial law and skeptical about moving toward IPSAS, which are considered as being too much capital market-driven and neglecting the well-established prudence principle. For the future, it can be expected that the German government cannot avoid participating in the EPSAS debate (Eulner and Waldbauer, 2018), but will do so in a conservative

and cautious manner and will try to prevent the establishment of mandatory and IPSAS-based European standards.

The example of France highlights that institutional change is possible, in principle, in public sector accounting. The implementation of accrual accounting in 2006 (Portal *et al.*, 2012) seems to have bedded down in the meantime and there was no obvious criticism raised against accrual accounting. The critique, based largely on rational choice arguments, is directed against the IPSAS and the governance of the IPSASB: The IPSAS, on the one hand, are said not to reflect the needs of the public sector. On the other hand, the IPSAS, as principle-based standards, are considered as not being detailed enough to achieve the aim of comparability and would therefore need to be supplemented by bookkeeping rules. Further, it is argued that the IPSAS have not reached their *final stage*, but are still work in progress. This would lead to additional reform efforts each time a standard changes. Some, although fewer, issues driven on historical and sociological grounds came up in the discussion as well.

6. Conclusions

This paper addressed recent calls for academic research on accrual-based public sector accounting in the EU (European Commission, 2016) and adds to the growing body of literature on EPSAS (e.g. Caruana *et al.*, 2019; Jorge *et al.*, 2019; Mann *et al.*, 2019). As presented in the last two sections, the study of responses to the Eurostat consultation indicated a generally positive view on IPSAS, although the responsible government authorities showed more skeptical attitudes. Our more in-depth study of France and Germany underlines that the French skepticism against IPSAS is less fundamental and primarily driven by doubts concerning the sufficient *publicness* of this set of reporting standards. In contrast, the German (federal) government is generally averse to accruals and to any corresponding accounting change.

From our theoretical analysis, we can draw the conclusion that technical matters (argued to be issues drawing on rational choice arguments) seem *doable*, but that political, historical, and cultural differences (as evidenced by historical and sociological arguments against E/IPSAS) go deeper: In line with Jones and Caruana (2015), we would argue that the biggest challenges of implementing EPSAS are most probably in the political arena and not in the technical sphere. Also, there is the danger of reform failure if the proposed changes do not take the different starting positions of EU member states into consideration. These issues, including the legitimacy of EPSAS (Steccolini and Dabbicco, *forthc.*), need to be addressed by change agents.

Our research approach has several limitations; some of them are potential avenues for future research. First, we concentrated on the role of the IPSAS as governmental reporting standards, but we did not touch on the impact of a harmonized governmental accounting concept on the national accounts and on the EU budgetary surveillance based on the ESA. Therefore, future research could focus on exploring the links between national (fiscal) accounting and government reporting. Also, the relationship between IPSAS and the EDP needs to be revisited. Second, the debate about IPSAS appropriateness does not usually consider differences which may often exist between the IPSAS as issued by the IPSASB and the adopted national accounting standards as they have gone *live*. As with any reform in any organization, also with the IPSAS “a common set of accounting standards does not automatically mean that comparability is achieved” (Tagesson, 2015, p. 8), as decoupling might happen, i.e. when the actual practice differs from the formal practice, even when there is no active resistance to reforms (Meyer and Rowan, 1977). What are the effects of such a decoupling – i.e. where an adopter “standardizes its practice but does not practice the standard” (Brunsson and Jacobsson, 2002, p. 128)? Finally, what are the effects of IPSAS regarding decision-making, transparency, etc. after the standards were implemented and went *live*? Taking a more complete picture might not actually lead to more complete answers, but could lead to a situation where we are able to ask the proverbial *better questions* relevant to public sector accounting change.

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Table 1: General Assessment of IPSAS Suitability

Country	MoF/treasury (or other government financial authority)	National audit organization	National statistics office	Social security fund	Standard setter, professional association of accountants	Consultancy/auditing firms (plus networks)	International organizations	Academics
Belgium					+			+
Cyprus	+	+0						
Czech Republic	0							
Estonia		+						
Finland				0				
France	-/- ¹⁰				-			
Germany	-			0	+			
Ireland					+			
Latvia	0							
Lithuania			0					
Malta			+					
Netherlands	-							
Poland	-				+0	+0		
Romania	+							
Spain					+			
Sweden		0			0/0			
UK			+	+	+	+/0		0
International					+/+	+/+/+/+/+	0	0
Total responses	9	3	3	3	11	8	1	3
'yes' responses	2	2	2	1	8	7		1
'partly' responses	2	1	1	2	2	1	1	2
'no' responses	5	0	0	0	1	0	0	0

(Legend: + = yes, + 0 = yes with few concerns, 0 = partly, - = no; several symbols successively indicate the number of respondents within the category)

¹⁰ In France, four authorities responded (with largely similar or overlapping content): "French Authorities" (mainly the MoF), the Directorate-General Public Finance of French government, the Court of Auditors, and the quasi-public sector standard setter CNOCP. As the responses are so similar and all respondents belong to French central government, we include only two of these responses in Table 1 (Government and CNOCP).